

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07  
NSC-05 EPG-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 AGR-10 FEAE-00 DODE-00 PM-04 H-02  
L-03 PA-02 PRS-01 IGA-02 /126 W  
-----171801Z 043704 /42

R 171740Z MAY 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 8333  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 08504

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MAY 16)

REF.: BONN 8254 AND 7166

1. FOREIGN EXCHANGE MARKET:  
IT WAS A MIXED PERFORMANCE FOR THE DOLLAR ON GERMAN  
FOREIGN EXCHANGE MARKETS IN THE PAST WEEK. AFTER  
STRENGTHENING AGAINST THE DEUTSCHEMARK EARLY IN THE  
WEEK, APPARENTLY IN RESPONSE TO FAVORABLE INTEREST RATE  
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DEVELOPMENTS IN THE EURO-MARKET, THE DOLLAR FELL BACK  
TO ABOUT THE SAME LEVEL AS ON THE PREVIOUS MONDAY. IN  
THE WEEK BEGINNING MAY 16, THE INCREASE IN THE PRIME  
RATE HAS HAD THE EFFECT OF STRENGTHENING THE DOLLAR  
SLIGHTLY. DURING THE REPORTING PERIOD FRANKFURT SPOT AND  
FORWARD DOLLAR RATES WERE AS FOLLOWS:

## FORWARD DOLLARS

SPOT DOLLARS (IN PCT. PER ANNUM)

OPENING FIXING CLOSING ONE-MONTH THREE-MONTH

MAY 10	2.3568	2.3598	2.3635	-1.7	-1.8
11	2.3700	2.3708	2.3715	-1.7	-2.0
12	2.3700	2.3688	2.3665	-1.7	-1.8
13	2.3585	2.3597	2.3600	-1.5	-1.8
16	2.3640	2.3613	2.3640	-1.9	-1.9
17	2.3600	2.3608	N.A.	N.A.	N.A.

## 2. MONEY MARKET:

MONEY MARKET INTEREST RATES CONTINUED TO MOVE LOWER DURING THE PAST WEEK IN THE FRG. BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK STILL APPEAR TO BE MORE THAN ADEQUATE TO MEET RESERVE REQUIREMENTS AND OBSERVERS PREDICT A FURTHER REDUCTION OF BANKS' INDEBTEDNESS TO THE BUNDESBANK DUE TO THE AVAILABILITY OF RELATIVELY CHEAP FUNDS. FRANKFURT INTERBANK RATES DURING THE REPORTING PERIOD DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

MAY 10	4.1-4.3	4.40	4.50
11	4.0-4.2	4.30	4.45
12	3.8-4.0	4.30	4.40
13	3.8-4.0	4.30	4.40
16	3.7-3.9	4.20	4.35

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## 3. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD MAY 1-7 THE BUNDESBANKS' NET FOREIGN POSITION DECLINED SUBSTANTIALLY BY DM 1.6 BILLION TO DM 83.8 BILLION. LIABILITIES AGAINST THE EUROPEAN FUND FOR MONETARY COOPERATION INCREASED BY DM 970 MILLION AND OTHER FOREIGN LIABILITIES BY ABOUT DM 780 MILLION. GERMANY'S IMF GOLD TRANCHE POSITION ROSE BY DM 60 MILLION BUT SDR HOLDINGS DECLINED BY DM 14 MILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 105 MILLION. THE SUBSTANTIAL INCREASE OF LIABILITIES AGAINST THE EUROPEAN FUND FOR MONETARY COOPERATION INDICATES THAT THE BUNDESBANK HAD TO INTERVENE IN SUB-

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LAB-04 SIL-01 AGR-10 FEAE-00 DODE-00 PM-04 H-02  
L-03 PA-02 PRS-01 IGA-02 /126 W  
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TO SECSTATE WASHDC 8334  
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AMCONSUL FRANKFURT

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STANTIAL AMOUNTS WITHIN THE SNAKE IN SUPPORT OF THE  
DEUTSCHEMARK SINCE THE DUTCH GUILDER WAS MOST DAYS AT  
ITS UPPER DEUTSCHEMARK INTERVENTION POINT. (IN THE  
BUNDESBANK'S MAY 7 BALANCE SHEET FOREIGN EXCHANGE  
TRANSACTIONS WERE RECORDED FOR THE APRIL 28 - MAY 4  
PERIOD DUE TO A TWO BUSINESS DAY DELIVERY PERIOD IN  
FOREIGN EXCHANGE TRANSACTIONS.)

4. BANK LIQUIDITY:  
IN THE SAME PERIOD BANK LIQUIDITY INCREASED SUBSTANTIALLY  
BY DM 3.7 BILLION. THE MAJOR FACTOR INCREASING LIQUIDITY  
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DITY WAS A DM 4.2 BILLION DECLINE IN OFFICIAL ASSETS  
HELD AT THE BUNDESBANK. (FEDERAL GOVERNMENT ASSETS  
DECLINED BY DM 2.2 BILLION TO DM 0.3 BILLION, STATE  
GOVERNMENT ASSETS BY DM 0.6 BILLION TO DM 3.0 BILLION,

AND FEDERAL POST OFFICE ASSETS BY DM 1.4 BILLION TO DM 1.9 BILLION.) IN ADDITION, SOME STATE GOVERNMENTS MADE USE OF THE BUNDESBANK'S CREDIT FACILITY FOR PUBLIC AUTHORITIES, BORROWING DM 0.5 BILLION. ANOTHER FACTOR INCREASING LIQUIDITY WAS A DM 0.9 BILLION DECREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. THE ONLY BASIC FACTOR REDUCING LIQUIDITY WAS THE ABOVE-MENTIONED DM 1.6 BILLION DECLINE IN THE BUNDESBANK'S NET FOREIGN POSITION. OTHER FACTORS REDUCED LIQUIDITY, NET, BY DM 0.3 BILLION.

THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE LOMBARD BORROWINGS BY DM 1.5 BILLION, BORROWINGS UNDER THE SPECIAL REDISCOUNT FACILITY BY DM 1.8 BILLION AND NORMAL REDISCOUNT BORROWINGS BY DM 0.4 BILLION. ON MAY 7, THE BANKS' REDISCOUNT BORROWINGS AMOUNTED TO DM 17.5 BILLION, LOMBARD BORROWINGS WERE PRACTICALLY ZERO (DM 55 MILLION) AND BORROWINGS UNDER THE SPECIAL REDISCOUNT FACILITY FELL TO DM 3.4 BILLION. THUS, ON MAY 7, THE BANKS' TOTAL CENTRAL BANK INDEBTEDNESS AMOUNTED TO DM 20.9 BILLION AS COMPARED WITH DM 24.6 BILLION ON APRIL 30.

#### 5. BOND MARKET:

THE MARKET FOR DOMESTIC BONDS WAS CALM WITH PRICES MOSTLY UNCHANGED. THE FEDERAL RAILWAYS LOAN OFFERED ON APRIL 28 (SEE BONN 7166) HAS REPORTEDLY NOW BEEN FULLY PLACED. ACCORDING TO THE PRESS, AVERAGE CURRENT YIELDS OF DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

REMAINING MATURITY  
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(YEARS) 1 3 5 7 9 10

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#### YIELD TO MATURITY

MAY 13	4.75	5.50	5.95	6.30	6.50	6.60
APRIL 29	4.75	5.50	5.90	6.25	6.45	6.55

ON THE MARKET FOR FOREIGN DM BONDS THE SAGA PETROKJEMI IS OFFERING BY PRIVATE PLACEMENT DM 10 MILLION OF BONDS (COUPON 7 1/2 PERCENT, ISSUE PRICE 100, MATURITY 10 YEARS WITH REPAYMENT TO BEGIN AFTER 5 YEARS). OTHER BORROWERS PLANNING FOREIGN DM ISSUES ARE THE PROVINCE OF QUEBEC (DM 150 MILLION, COUPON PROBABLY 7 1/4 PERCENT, MATURITY 10 YEARS) AND THE NORSK HYDRO (DM 150 MILLION, COUPON PROBABLY 7 PERCENT, MATURITY 12 YEARS WITH REPAYMENT TO BEGIN AFTER 4 YEARS).

6. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

THE LATEST BUSINESS SURVEY DATA OF THE IFO ECONOMIC RESEARCH INSTITUTE (COVERING MANUFACTURERS' VIEWS IN MARCH) REMAINED RATHER DISAPPOINTING. THE MARGIN OF RESPONDENTS WHO THOUGHT THAT THE CURRENT SITUATION WAS POOR OVER THOSE WHO CHARACTERIZED IT AS BEING GOOD, WHICH HAD RISEN FROM 14 PERCENT IN JANUARY TO 15 PERCENT IN FEBRUARY, DECLINED TO 10 PERCENT IN MARCH. AT THE SAME TIME, HOWEVER, EXPECTATIONS FOR THE NEXT 6 MONTHS DETERIORATED FURTHER. THE NUMBER OF PRODUCERS EXPECTING A PICK-UP OF BUSINESS WAS EXCEEDED BY THE PESSIMISTIC RESPONDENTS BY 10 PERCENT IN MARCH. IN JANUARY AND FEBRUARY, THE NEGATIVE MARGIN HAD COME TO 4 PERCENT AND 8 PERCENT, RESPECTIVELY. REVISED FRG GNP DATA FOR 1975/1976 WAS REPORTED IN BONN 8254. STOESSEL

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## Message Attributes

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**Copy:** SINGLE  
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**Decaption Note:**  
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**Disposition Approved on Date:**  
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**Type:** TE  
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